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The Consequences of the Economic Crisis on Small Companies from Romania

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Abstract

The economy of Romania was strongly affected by economic crisis in 2009-2010. Under these conditions, the system of small companies has recorded significant changes in terms of demographic evolution of companies and in terms of economic performance. This paper aims to identify the consequences of the economic crisis on this system of companies and the research methodology includes a quantitative analysis both of indicators aiming the demographic evolution of companies as the number of registered companies, removal or suspended and of economic indicators aiming economic performances of companies as turnover, number of new created or lost jobs and labour productivity.

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1. Main text

Small-sized companies are at the heart of the European Union sustainable development policy and are among the key factors for the success of the Europe 2020 Strategy, through of their contribution to the economic growth, creation of new jobs, as well as their role in innovation and competitiveness of the European economy.

The subsystem of small-sized companies or of SMEs has been a subject of analysis for both various Romanian public and private institutions and for various researchers. For example, in the light of the analysis prepared by Cezar (2012) and entitled "The Classes of Economic Concentration and the 80% Factor" one can conclude that at the level of national system of companies, in 2004 and 2008, more than 94% of companies were micro-enterprises.

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These micro-sized companies represent a particular world because they are not interested in the position of leader of the classified market, in the bargaining power, the development investments are relatively low and in most cases their strategic objective is to survive in a market niche in order to make a profit that provides a fair standard of living. Nonetheless, micro-sized companies are a significant source of employment and at the same time they can serve as basis from which future small, medium or large-sized companies are selected. At the same time, on the market where it operates, the leader company is of particular importance because: it has a decisive influence over the competition, as it has the largest market share, it influences the place on the market of new products, it has the strongest bargaining power with suppliers and has the most important comparative advantage of the trademark.

In another paper of the same author, entitled "Foreign Majority Ownership in the Node Companies of the Main Markets in Romania - Compendium" (Cezar, 2013), are highlighted the vulnerabilities of the Romanian real economy. In the year 2011, among the companies listed in the Romanian Top 100, the foreign owned companies covered 82.1% of the turnover of the top companies and 86.31% of the gross profit. In these circumstances, according to the significance of the 80% threshold, it is clear that these foreign owned companies play a decisive role in the performance of the Romanian economy.

2. Macroeconomic context

The economic crisis has made its presence felt in the Romanian economy as from the fourth quarter of 2008. Its effects intensified during 2009, when the Romanian economy has followed a downward trend of 7.1%, as shown in the following table:

Table 1: Annual growth dynamics of Gross Domestic Product (GDP) between 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Dynamics of annual growth of GDP(%)*estimated	8.5	4.2	7.9	6.3	7.3	-7.1	-1.3	2.5	0.3*

Source: National Bank of Romania

The Post-Privatization Foundation Report, 2010 edition, attributes the lack of performance of the Romanian economy from the year 2009 to the following factors: contraction in domestic demand in terms of consumption, withdrawal of capital flows from abroad and quite steep fall in foreign trade.

Contraction in domestic demand in terms of consumption was due to loss of balance between the dynamics of labour productivity and that of earnings as a result of laxity of wage policies initiated several years ago and of the fiscal loosening from the election year 2008. However, during the year 2008, consumption was backed by consumer credits, and a year later, respectively in 2009, it decreased significantly also due to the severe contraction of credit offer.

The second factor that favoured the contraction in domestic demand in terms of consumption, namely the withdrawal of capital flows from abroad, was due to the increased risk aversion of foreign investors. The reduced economic growth prospectives in the EU Member States and the consumption in these countries have led to a lower demand for Romanian exports. GDP decline in 2009 was due to the significant restriction in domestic consumption and promotion of pro-cyclical fiscal policies, namely the introduction of minimum tax on gross profit of the company in order to avoid widening of the fiscal deficit.

The effects of the global financial and economic crisis continued to be felt by the Romanian economy also in year 2010, but at a much lower intensity compared to 2009.

A major role in improving the performance of the Romanian economy in 2010 was played by the loan agreement concluded by the Romanian authorities with the EU, IMF and other international financial institutions in year 2009 and successfully completed in year 2011. This agreement has been both a source of access to favourable financing conditions and a catalyst for public sector reform and provision of medium and long-term sustainability of public finances.

As regards price stability in 2008, as evident from the following table, the average annual inflation rate measured by the consumer price index was 7.8% and in 2009, the annual average inflation rate calculated by help of harmonized indices of consumer prices was 5.6%.

Although the domestic demand in terms of consumption contracted severely, inflation had a slow downward trend due to structural rigidities from the market for goods and services as well as from the labour market.

Table 2: Inflation rate between 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Inflation rate(%)	45.7	34.5	22.5	15.3	11.9	9.0	6.56	4.84	7.85	5.6	6.1

Source: National Bank of Romania

Containment of consumer prices growth was also due to depreciation of the national currency by approximately 15.2%. The data in the table above reflect also the disinflationary process covered by the Romanian economy since 2000, in 2005 achieving an inflation rate of one figure. In 2010, the inflation rate increased by 0.5 percentage points compared to the previous year.

The main factor behind this trend is the increase by 5 percentage points of the VAT, starting from July 1, 2010. The adverse shocks from the supply, such as the bottom-up dynamics of administered prices and the increase of oil price worldwide, also had an influence.

In terms of employment of the active population, in 2009, the situation has deteriorated sharply. If until 2008, as shown in the following table, the unemployment rate had a downward trend, reaching 4.4%, the following year this rate increased by 3.4 percentage points, respectively an increase of 77%.

Table 3: Unemployment rate between 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Unemployment rate(%)	10.5	8.8	8.4	7.4	6.3	5.9	5.2	4.1	4.4	7.8

Source: National Institute of Statistics

A positive aspect of the crisis was the reduction of the difference between the monetary value of exports and imports, although the trade balance remained negative.

Table 4: Evolution of exports and imports between 2004-2009 (mil. Euro)

	2004	2005	2006	2007	2008	2009
Imports	24 258	30 061	37 609	47 371	52 834	35 903
Exports	18 935	22 255	25 850	29 549	33 725	29 116

Source: National Institute of Statistics

The smaller difference between the monetary value of exports and imports was due to a reduction of imports by 32% in 2009 compared to the previous year, while for the same period, exports were reduced by only 13.7%.

3. The influence of the crisis on demographic evolution of small companies

When analysing the demography of small-sized companies during 2007-2009, we can see that in the crisis year 2009, the establishment of new small-sized companies had a lower dynamics, while the withdrawals from the

economic environment have increased substantially and suddenly through cancellation of the registration or through suspension of the activity.

From the table below it can be seen that in 2009, 133362 companies have suspended their business activity, as compared to only 12019 in the previous year. In other words, compared to year 2008, the number of small-sized companies that have suspended their business activity in 2009 was 11 times bigger.

Table 5. The demographic evolution of small companies between 2007-2009

	2007	2008	2009
Registered companies	142 073	140 642	116 022
Removal companies	20 401	17 676	43 615
Suspended companies	12 012	12 019	133 362

Source: National Office of Trade Register

However, it can be concluded that, in year 2009, the main form of company withdrawal from the market was to suspend the business activity because, according to the Doing Business Report, the procedure of cancellation of the registration is time-consuming, more costly and more bureaucratic.

An aspect with positive connotations can be identified in the demography of small-sized companies. The crisis is one factor that selects between competitive and non-competitive companies. The main category of small-sized company applying for suspension was the inactive company, meaning the company "legally established, but economically not active during the observation period".

As for registrations, it can be seen that in year 2009, the process of establishing new companies continued, but at a lower rate of dynamics as compared to previous years.

The number of registrations has dropped by 17.5% compared to 2008 and by 18.33% compared to 2007. Since the establishment of new companies has dropped dramatically, it can be concluded that the Romanian economy has entrepreneurial potential and that the need to support small-sized companies is a solution to end the crisis and a way to restore economic growth.

According to statistical data provided by the National Institute of Statistics in the paper "Romania in figures" (2010) we can identify the following negative effects of the crisis over small-sized companies operating in different economic sectors:

- compared to 2008, in the year 2009, in the business area Wholesale and retail trade the number of active companies decreased by 10%;
- during the same period of time, in the business area Manufacturing industry and those providing Administrative and support service activities the number of active companies decreased by 20%; in the Construction business area there was a negative swing of 40%;
- in the Property brokering services business area there was a steep fall of 60% in the first half of 2009 compared to the same period of year 2008; in the business areas Water supply, sewerage, waste management and remediation activities and Professional, scientific and technical activities the number of small-sized companies increased by approximately 50%.

The demographic trend of small-sized companies from year 2010 continues to show a difficult business environment. Among the factors responsible for this situation we can mention: the general context of economic crisis, the fiscal regulations introduced, such as increasing the VAT from 19% to 24% and the consequences of Government Emergency Ordinance (GEO) no. 44/2008. If in 2010 one could see that the effects of economic crisis were still being felt, in 2011, the demographic trend of companies actually reflect a reduction of uncertainties and an increase of confidence in the business environment. Compared to 2010, in year 2011, both suspensions and dissolutions of companies, as well as cancellations of registration were significantly reduced.

Table 6. Demographic evolution of small companies

	2010	2011
Suspensions	66 420	21 221
Dissolutions	7 508	4 001
Cancellations of registration	186 144	56 245

Source: Post-Privatization Foundation

After a more thoroughly analysis of the small-sized companies' trend, for the period 2000-2009, we can identify two time intervals of continuous development, as shown in the following table:

Table 7. Number of small companies registered, per total and size class between 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Micro	375804	374255	377499	417366	358787	386561	410763	431029	602711	573299
Small	29121	30340	30231	33856	36392	39128	43419	47022	49560	43724
Medium	7504	7737	7761	8147	9121	9158	9322	9577	9753	8435
Total	412429	412332	415491	459369	404300	434847	463504	487628	662024	625458

Source: Post-Privatization Foundation

The first growth time interval is between 2000 and 2003 and the second growth time interval is between 2005 and 2008. In other words, at the end of year 2008, the business area of small-sized companies achieves the highest level of development in terms of demography.

Moreover, in the analysed time interval we can notice two demographic crises of small-sized companies, namely one in 2004 and another one in 2009. The difference between the two demographic crises relates to the conditions that they created. In year 2004, the demographic crisis was due to the application of legal provisions for administrative reasons and in year 2009 to the application of economic conditions.

4. The influence of the crisis on economic performance of small companies

Economic and financial crisis spread on the national economy on these channels: public consumption, foreign direct investments, foreign trade, purchasing power of the population and national wealth. The negative effects of the crisis spread through the channel of public consumption due, on the one hand, to the lack of efficiency in attracting resources provided for Romania by the EU and on the other hand, to restrictions concerning the access to funding from bank sources. With regard to foreign direct investments, these were reduced both due to interruptions of funding from the banking system and due to the risk aversion of foreign investors to continue to implement projects in Romania. In terms of foreign trade, exports dropped due to contraction in demand on traditional export markets, and imports dropped due to lower domestic demand in terms of consumption. The decrease of demand in terms of consumption was due, among other things, to the drastic reduction of supply of consumer credits by the banking system. The negative effects were also felt at the level of national wealth due to lower market values of movable and immovable assets, but also due to increased share of bad loans in the assets of credit institutions.

Through these channels that were transmitting the negative effects generated by the global economic and financial crisis, companies got also affected. Thus, in the crisis year, namely in 2009, 333,273 jobs were lost. Compared to 2008, the small-sized companies were providing 2.96 million jobs and in 2009 they were providing only 2.63 million jobs. The reduction of the average number of employees was recorded in the subsystem in total and also at the level of each size category. The major negative dynamics was recorded in the category of medium-sized companies (-13.5%), followed by the small-sized ones (-12.1%) and micro-enterprises (-8.2%). In 2010, the total number of employees reported by small-sized companies was of 2.53 million out of which 34.3% in micro companies, 33.6% in small-sized companies and 32.1% in middle-sized companies.

Although in terms of number of employees, the micro-sized companies have the largest share with a view to turnover, these companies have the lowest share, namely 31.1%. The largest contribution to the gross added value is brought by middle-sized companies, namely 36.3%.

The negative effects of the crisis were also felt at the level of company cash receipts. Compared to the previous year, in year 2009, the turnover decreased both per business area in total and for each size class separately. For the business area in total, the turnover decreased by 12% and if we analyse each size class, we will notice that most affected by the crisis were the medium-sized companies, which recorded a decrease in turnover of 17%, while the micro-sized companies had the lowest negative variation, of only 4%.

Another indicator used to measure the economic performances of the companies system is the labour productivity. In its turn, this indicator depends on a combination of factors, among which we can mention the level of qualification of the personnel the number of employees, the technological level of production processes and policy of selling prices.

Table 8. Labor productivity(lei)

	2006	2007	2008	2009
Micro	113 711	131 930	183 669	193 706
Small	148 023	169 626	207 202	207 245
Medium	146 733	180 817	219 671	212 053

Source: Post-Privatization Foundation

As shown in the table above, except for middle-sized companies, in 2009 compared to 2008, both small-sized companies as well as micro companies recorded productivity growth. This however was not due to replacement and renewal of technological factors nor to the increase of the level of qualification of the personnel, but to a greater reduction in the number of employees as compared to turnover.

But when analysing the average labour efficiency, calculated as the ratio between the profit obtained and the number of employees within active companies, we see that the effects of global financial and economic crisis have been quite significant at the level of small-sized companies.

Table 9. The average efficiency of labor (lei/employee)

	2006	2007	2008	2009
Micro	13 037	6 907	1604	-5 861
Small	7 519	7 621	5914	1322
Medium	7 730	7 062	5380	794

Source: Post-Privatization Foundation

The trend of this indicator reflects the poor performance of these companies. In 2009, micro-sized companies recorded significant losses, while the other two categories of small-sized companies experienced a worsening of their economic performance, but without losses.

5. Conclusions

Although they have an important role in providing jobs, in ensuring economic growth and innovation and competitiveness of an economy, small-sized companies have proved to be very sensitive to the effects of the global financial and economic crisis. After analysing the demographics and the economic performance indicators, the following conclusions can be drawn: economic crisis caused negative consequences over small-sized companies, because in 2009 a number of 11 times more companies suspended their activity as compared to year 2008; negative consequences over small-sized companies can be identified both at the level of employment of the active population and at the level of the turnover, when the two indicators have negative trends during the crisis year; at first glance,

the increase of labour productivity during the crisis year can be seen as a positive consequence of the economic crisis. But the positive trend of this indicator was due to a sharper decrease in the number of workers as compared to the turnover. When analysing the average labour efficiency, it can be seen that the economic performance of the system of companies was adversely affected since the onset of the crisis, namely in 2008 and it continued to worsen in 2009. The only companies that have registered losses were the micro companies; small-sized and middle-sized companies continued to record profits, but their economic performance declined significantly. These findings only reinforce the idea that resuming the economic growth in Romania will be difficult and cumbersome.

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